SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

Congress created SIGIR to provide independent oversight of U.S. funds used for the reconstruction of Iraq by:

- promoting economy, efficiency, and effectiveness in the administration of programs and operations
- preventing and detecting waste, fraud, and abuse in such programs and operations
- keeping the Secretary of State, Secretary of Defense, Congress, and American taxpayers informed about problems, deficiencies, and recommendations for corrective action relating to the administration of programs and operations

Stuart W. Bowen, Jr., was appointed Inspector General in January 2004. This past May, the IG returned from his $16^{\rm th}$ trip to Iraq to review progress on the reconstruction effort.

FIRST FOCUSED FINANCIAL REVIEW

This quarter, SIGIR completed the first in a series of focused financial reviews of large contracts funded by the Iraq Relief and Reconstruction Fund (IRRF). These reviews will meet the "forensic audit" requirement that the Congress imposed upon SIGIR last December through the Iraq Reconstruction Accountability Act of 2006.

This initial review examined the work performed by Bechtel under its Phase II IRRF contract. SIGIR's findings from the Bechtel audit are emblematic of the many challenges faced by contractors in the Iraq reconstruction program, including insufficient oversight, descoping, project cancellations, cost overruns, and significant delays in completing projects. SIGIR has announced the next round of focused financial reviews, which will audit the largest contracts in the Iraq reconstruction program over the next year.

ASSET TRANSFER

SIGIR produced another audit on the asset-transfer process, looking at how completed projects are transferred to Iraqi control. During the course of the audit, SIGIR found that the Government of Iraq (GOI) has failed to accept a single U.S.-constructed project since July 2006. Although local Iraqi officials have accepted projects, the national government has not. Moreover, SIGIR learned that the U.S. government is unilaterally transferring projects to Iraq. The failure of the asset-transfer program raises concerns about the continuing operation and maintenance of U.S.-constructed projects.

BUDGET EXECUTION

The GOI now has responsibility for managing the financing of Iraq's national recovery. This means that it must effectively execute its capital budget, which it failed to do in 2006. According to *The President's Interim Benchmark Assessment*, progress on budget execution by the GOI in 2007 has been satisfactory. Although the GOI has improved budget execution this year, it must do more to ensure that ministry capital budgets are effectively used.



The renovated Iraqi Ministry of Defense headquarters in Baghdad.

PROVINCIAL RECONSTRUCTION TEAMS

As of June 2007, the United States has provided \$1.924 billion to support the PRT program in Iraq, and another \$937 million has been requested for FY 2008. The new PRT plan will increase the number of PRTs from 10 to 25 and double the total personnel working in PRTs to 700. This Quarterly Report includes the second of three planned SIGIR audits on the PRT program, and it indicates that the program has made significant strides since SIGIR's last audit on the issue, particularly with regard to resource management, security, and staffing. The audit finds, however, that PRT planners should better define program objectives and develop a metric-based monitoring system to measure the program's performance. SIGIR currently is conducting fieldwork on the third PRT audit, which will examine the effectiveness of the overall PRT program.

CAPACITY DEVELOPMENT

U.S. agencies continue to carry out a number of important capacity-development initiatives in Iraq. The Embassy is implementing a broad program to improve the capacity of

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key ministries to execute core functions, such as strategic planning, budgeting, training, and managing personnel systems. The Embassy's new Coordinator for Economic Transition is leading the Budget Execution Initiative team.

0&M AND SUSTAINMENT

In three of the four assessments conducted on sustainability this quarter, SIGIR inspectors found U.S.-funded facilities now under Iraqi control that were not being properly sustained. The most notable sustainment inspection was the report on the Doura Power Station. Although rehabilitation work was supposed to be completed by April 2004, only one unit had been repaired by April 2006, and the other has never been operational. Because of poor Iraqi operations and maintenance, the U.S. Army Corps of Engineers has been refurbishing the units and expects them to be operational in August 2007.

INTERNATIONAL COMPACT WITH IRAQ

During this past quarter, the GOI and the UN launched the International Compact with Iraq to carry out a comprehensive five-year program of reform and investment supported by the international community. On July 20, 2007, the GOI issued its first report on the implementation of the Compact, identifying eight significant challenges that the GOI must address, security being foremost among them.

ANTICORRUPTION

The Embassy made progress on several fronts to address the endemic corruption in Iraq, which SIGIR views as a "second insurgency." This quarter saw the inception of the Iraqi-created Joint Anti-Corruption Council (JACC), comprising the three main anticorruption organizations in Iraq, as well as other governmental representatives. A SIGIR audit this quarter identified continuing challenges to the implementation of a coherent anticorruption effort, including the absence of a program manager with the authority to coordinate the overall anticorruption effort and the lack of a comprehensive plan that ties anticorruption programs to the U.S. Embassy's Iraq strategy.

BENCHMARKS

There are two primary sources of benchmarks aimed at measuring GOI progress. The first is a set of 18 measures set forth in P.L. 110-28, which was passed by the Congress on May 25, 2007. The other is contained in an appendix to the Compact. SIGIR will continue to monitor progress on these benchmarks in future Quarterly Reports.

Notable SIGIR accomplishments

AUDITS: SIGIR completed 8 new audits this quarter, including 21 recommendations and 5 audit lessons learned. SIGIR's audits addressed issues such as: KBR's support to the U.S. Embassy under LOGCAP Task Order 130; the financial reporting of the cost to complete construction projects; sources and uses of FY 2006 appropriations and funds; and the roles and responsibilities of U.S. government agencies and activities involved in Iraq relief and reconstruction.

INSPECTIONS: SIGIR completed five new project assessments, four of which were sustainment reviews. To date, SIGIR has completed 95 project assessments, 96 limited on-site inspections, and 342 aerial assessments. In three of the four sustainment reviews completed this quarter, SIGIR found that projects were not being sustained properly.

INVESTIGATIONS: SIGIR has 57 ongoing investigations into fraud, waste, and abuse in Iraq reconstruction, 28 of which are at the Department of Justice for prosecution. As of July 30, 2007, SIGIR investigations have resulted in 5 convictions, 13 arrests, and 8 pending trials.